



Office of Health Policy and Program Support

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November 19, 2008

AGENDA ITEM 3a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Health Benefits Branch Strategic Direction
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. BACKGROUND:**

On July 29, 2008, the CalPERS Board of Administration (Board) conducted an offsite meeting in Santa Rosa, California. During the health benefits session, the Board discussed key health care initiatives and priorities, the role of CalPERS in the health care industry, and a path forward.

Mark D. Smith, M. D., President/Chief Executive Officer of California Healthcare Foundation presented a CalPERS diagnostic and suggested improvements to the current health benefits program.

The following panel presented the provider perspective:

- Lloyd Dean, President/Chief Executive Officer of Catholic Healthcare West, discussed challenges in the current hospital system.
- Steve McDermott, Chief Executive Officer of Hills Physicians Medical Group, assessed the health care delivery system and suggested areas of focus for CalPERS.
- Jay Cohen, M. D., President/Chairman of Monarch Health Care, A Medical Group, Inc., discussed the California health care delivery system.

Jeffrey Rideout, M. D., Chief Medical Officer of Health Evolution Partners, presented possible models for the CalPERS health benefits program and discussed the Purchaser Value Initiative.

V. ANALYSIS:

The Board identified key health care priorities as follows:

- Pursue networks that promote provider competition through provider selection, and payment structures rewarding efficiency and quality.
- Specify a consistent set of administrative processes and performance results that must be met by each health plan (require financial guarantees).
- Require health plans to deliver consistent, high-performing health and disease and prescription drug management programs (or consider carving these components out to specialty vendors).
- Define consistent data reporting requirements for all plans.
- Consider adopting evidence-based design concepts.

Staff suggested the following immediate next steps:

1. Promote provider competition by negotiating enhancements to the Blue Shield Net Value and PERS Select plan networks.
2. Continue development of consistent, high-performing health and disease management and prescription drug management.
3. Evaluate evidence-based design concepts for potential 2011 implementation.
4. Increase health plan accountability by expanding current performance requirements through upcoming renewal negotiation process.
5. Require consistent data reporting metrics from all health plans and develop data dashboards for periodic reporting.

Attachment 1 presents highlights of the CalPERS July 2008 Offsite, outlining the key health care strategic priorities discussed.

Attachment 2 contains the "Health Benefits Strategic Initiatives" for the 2004 through 2009 rate years, providing background for our strategic direction discussion. Five examples of recent health strategic initiatives ranging from new physician networks to pharmacy management follow:

- **High Performance Physician Networks** - CalPERS partnered with Blue Shield and Blue Cross to develop HMO and PPO High Performance Physician Networks (HPNs) for 2008. Both networks feature higher-efficiency providers and premium savings while maintaining access and quality of care standards.

- **Partnership for Change** - The Board adopted "Partnership for Change" in 2005 to promote value in hospital care and help moderate costs. The goal is to establish a transparent and well-functioning marketplace where hospitals compete for business on the basis of the quality and cost of services they deliver.
- **Blue Shield Hospital Network** - In 2004, CalPERS and Blue Shield identified 38 high-cost hospitals throughout the state. Twenty-four of the hospitals did not meet our cost and quality criteria and the Board excluded them from the 2005 Blue Shield provider network. Blue Shield reviews the network annually and makes adjustments accordingly. Blue Shield excluded 19 hospitals for the 2009 rate year.
- **Regional Pricing for Contracting Agencies** - CalPERS implemented regional pricing in 2005 to help retain contracting agencies as well as attract new agencies. We apply the regional prices to the Basic Plan coverage for all contracting agencies. This varies the premium for contracting agencies to better reflect local area markets.
- **Pharmacy Management** - CalPERS implemented several savings concepts for 2005, including: active promotion of over-the-counter drugs, specialty and biotech drug management, education and compliance programs for certain conditions, and mail service incentives for maintenance medications for the self-funded plans.

VI. STRATEGIC PLAN:

This item supports the CalPERS Strategic Plan, Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

This is an information item only.

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Attachments